

## **‘NORMALISATION’ IN A NON-NORMAL ENVIRONMENT – ISSUES IN BUILDING SUSTAINABLE MINING COMMUNITIES**

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### **1. Introduction**

‘Normalisation’ has been defined as the process whereby a community governed by a non-elected body is transformed into a free enterprise based permanent community governed by a democratic structure consistent with other such structures elsewhere in Australia (Lea and Zehner 1985). At an operational level, normalisation is normally understood as the process whereby publicly accessible (i.e. non-exclusive) services are transferred from private ownership (e.g. a mining company) to public ownership by State or local governments.

In Western Australia, most privately owned towns were established as ‘new towns’ in remote areas to support ‘greenfield’ mining activity. A notable exception is Exmouth which was established in the mid 1960s as a closed town to provide services and accommodation for the USA’s communication base at North West Cape. The last so-called private town of significance to be built as a whole entity was Leinster in the North Eastern Goldfields, in 1976, to support nickel mining by the Agnew Mining Company. Elsewhere in Australia, privately owned towns or related infrastructure were established for a range of purposes, although the previous land use and legislation have influenced the precise circumstances.

Pilbara Iron<sup>1</sup> has an important role in five townships<sup>1</sup> established in the Pilbara to support company operations – Dampier, Tom Price, Paraburdoo, Wickham and Pannawonica. These towns were established in the late 1960s and early 1970s by Hamersley Iron and Robe River. Although Hamersley Iron and Robe River initially built these towns within the Shire of Roebourne and what is now the Shire of Ashburton, those two companies had responsibility for all aspects of town management, maintenance and development, i.e. they were classified as privately owned towns.

In the early 1980s, Hamersley Iron and the State Government began a process of normalisation, which resulted in the majority of State and Federal Government functions in the towns being transferred to the relevant government authority. Robe began a similar process for Wickham in the 1990s. With the transfer of assets and accountabilities to State and Federal authorities largely complete, or with rights of occupancy granted to those authorities, the outstanding process of normalisation for the towns of Tom Price, Paraburdoo, Dampier and Wickham is the transfer of ownership and accountability for services and assets that would normally be provided by a Shire or Local Government. The stages of normalisation at the Local Government level for each of the five towns is summarised in the following table.

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<sup>1</sup> Pilbara Iron, created in 2004 after Rio Tinto’s acquisition of North Ltd in 2001, is the manager of assets owned by Hamersley Iron and Robe River, including housing and other town related assets.

**Table 1: Normalisation status<sup>2</sup>**

| <b>Town</b> | <b>Normalisation status</b>  |
|-------------|--|
| Tom Price   | 1999 Normalisation Agreement with the Shire of Ashburton. The majority of local Government functions are normalised. Hamersley Iron to retain some specified responsibilities and assets including provision of electricity, water supply, bus shelters and other structures.        |
| Paraburdoo  | 1999 Normalisation Agreement with the Shire of Ashburton. The majority of local Government functions are normalised. Hamersley Iron to retain some specified responsibilities and assets including water supply, street sweeping and bus shelters.                                   |
| Wickham     | Partial normalisation of sections of town. Part of the town remains under Robe River's responsibility control and other parts with Government, and private housing is serviced by the Shire. Normalisation negotiations with the Shire for future transfer have effectively stalled. |
| Dampier     | Limited infrastructure and functions transferred to the Shire in the 1980s; negotiations for remaining asset and service transfer has effectively stalled. The Shire has raised concerns with the age and standard of infrastructure yet to be transferred to it.                    |
| Pannawonica | No provisions for normalisation within relevant State Agreement. Effectively remains a privately owned mining town.  |

This paper explores the theoretical pre-conditions that should exist for normalisation to be appropriate, and examines the current situation in the Pilbara to determine how well normalisation is working and what the issues are in the Pilbara. The observations and findings of a regional baseline socio-economic assessment of the Pilbara conducted by Rio Tinto are described; however this paper does not represent the company's view on the future of normalisation of towns in the Pilbara region. An alternate model of normalisation to that currently undertaken in the Pilbara is presented, which aims to highlight the complex nature of normalisation and suggests some ways that may produce different outcomes than those achieved in the Pilbara.

## **2. Why and when should we normalise**

It has been argued that establishment of privately owned towns – that is operating without representative local government – is sensible in the early stages of town development when all of the drive and investment is coming from 'outside' the town in the form of a mining company or another single source of economic support. Following the same argument, it has been suggested that full normalisation requires a situation where a town's economy and community has a diverse array of supports and where the drive for town development comes from within the town community (Lea and Zehner 1985). Several so-called normalised mining towns are yet to achieve this level of diversity, which leaves them overly reliant on a single economic activity such as mining.

Reasons given by Companies and governments for supporting normalisation include:

- opening up closed towns for broader population growth;

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<sup>2</sup> Based on the report prepared for Pilbara Iron by Ethics and Economics International, 2005

- changes to taxation policy for company provided housing;
- cost reductions for services;
- establishing a home-owning workforce resulting in reduced labour turnover, and
- a more cohesive, committed community.

However, there is little evidence to show that normalisation *per se* generates all of these benefits (Lea and Zehner 1985).

At the centre of the normalisation debate is the provision and maintenance of town related infrastructure. There are several situations where market failure in the provision and maintenance of town related infrastructure occurs and it is not feasible for Companies to provide and maintain such infrastructure (Western Australian Technology and Industry Advisory Council 2004). The following factors may be significant contributors to such market failures:

1. The infrastructure is a 'public good': it is not practical to exclude community users and therefore charge them.
2. There are significant externalities: there are non-market benefits which, if they are not taken into account, lead to an under-provision of infrastructure.
3. The infrastructure is a natural monopoly: that is, it is cheaper to have one supplier than several – and high prices will be charged (and large profits made) if provided privately.
4. They are of a large-scale, hence challenging to construct and finance.

Factors 1, 2 and 4 may apply to social and community infrastructure built by mining companies in both establishing towns (e.g. Jabiru in Kakadu National Park, Weipa in Queensland) and/or dramatically expanding existing towns (e.g. Blackwater in Queensland, Port Hedland in the Pilbara) to support mining operations. Historically, as purpose-built mining towns developed and other industries and users accessed the 'non-excludable' mining company-provided infrastructure (as in factors 1 and 2), the argument for the maintaining private ownership of all or part of facilities and services weakened, and there has been a general move for 'normalisation' when these factors have occurred. These factors are most evident when towns are located close to multiple uses and industries (e.g. at Blackwater in the Bowen Basin, Jabiru, Roxby Downs as a regional centre for outback South Australia) and least evident where opportunities for other populations and interests<sup>3</sup> to benefit from the services are limited (e.g. Weipa and Nhulunbuy in Northern Territory).

Infrastructure to support economic and social life in towns can be separated into 'hard' and 'soft' items.

- 'Hard' infrastructure includes roads, water, power and sewerage facilities, schools and hospitals, airports and communication facilities and recreational facilities. In the period of development in the 1960s and 1970s in the Pilbara, this infrastructure was provided by companies and government, with the former having almost sole responsibility for 'greenfield' towns.
- 'Soft' infrastructure, being the support for community activities, social and community development, intellectual and managerial resources, managing impact on Indigenous heritage, and population mobility. Mining companies have continued as important providers of these services, with growth in some areas over the years, especially in their support (where appropriate) for Indigenous economic and social development.

Typically, normalisation processes have focused on the hard infrastructure through the transfer of ownership and accountability. However, the literature suggests that the success of the transition from a company town to a fully normal and viable town lies more in the ability of the town's community to manage social factors and build community capacity and resilience (as discussed in Plowman *et al.* 2003).

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<sup>3</sup> Sometimes termed in the economic literature as 'free riders'

### 3. Normalisation and the Pilbara

The Pilbara towns in which Pilbara Iron has a strong influence (Dampier, Tom Price, Paraburdoo, Wickham and Pannawonica) were established by Hamersley Iron and Robe River under various State Agreement Acts during the 1960s and 1970s. Initially there was a high level of involvement and engagement with the provision of services, infrastructure, maintenance and town development. Although during the 1980s (Hamersley Iron) and 1990s (Robe River) the process of normalisation began in these towns, the transfer of accountability for assets and services to local government varies from town to town and in many instances is incomplete (Table 1). While some assets have been handed over to governments, Pilbara Iron currently retains responsibility for township utilities and provides in-kind maintenance and management services in Dampier, Wickham, Tom Price, Paraburdoo and Pannawonica. In particular, Pannawonica which has a small resident population does not have provision for normalisation in the governing State Agreement and it is unlikely that a normalisation process will occur for this town.

One of the challenges to normalisation in the Pilbara is lack of economic diversity in the region and an over-reliance on the mining sector. In particular, the cyclical nature of mining provides many challenges to development of the towns. The roller-coaster ride experienced by some mining towns in their economic and social well-being makes normalisation difficult. Towns with a long term declining resident population since their creation in the 1960s, due to increases in production efficiencies that have led to higher production per employee, and a lack of residential and public infrastructure are quickly challenged with boom conditions in mining, with infrastructure shortages, pressure on housing availability and pressing demands for services. This is a difficult environment for long-term governance, particularly at the local government level. A fundamental requirement of a thriving town's economy is diversity with other means of economic support providing a buffer against short-term trends in the mining industry, and also provide a platform for long-term growth as labour in mining is replaced by capital.

The diversification argument is often fuelled by the identification of tourism opportunities which can be mistaken as the solution to town 'thrival'. For the inland Pilbara towns it is unlikely that any serious tourism opportunities will develop to the extent that they can replace the level of economic wealth generated by the mining sector. However the provision of services to non-mining sectors adjacent to or in the town (e.g. pastoral industry, Indigenous communities) are real opportunities and can make a modest contribution to economic well-being, *albeit* at a significantly reduced level than the contribution from the mining industry.

The Ashburton and Roebourne shires raise income from rates, but more importantly from a range of tied and discretionary grants from State and Federal governments. Revenue from grants and subsidies made up 43 per cent of the Shire of Ashburton's revenue stream in 2004/05 (Shire of Ashburton 2005) compared to 25 per cent in the Shire of Roebourne in the same financial year (Shire of Roebourne 2005). Rate revenue is derived primarily from residential and commercial properties within each of the town sites and is seen by local government as a reliable measure of income. Grant Funding is a less stable source of income, which is generally reviewed on an annual basis with little certainty around assessment parameters. Maintaining services in the remote and climatically extreme north west of WA is expensive, and the 'new towns' have a level of facilities that would have been difficult to establish without company support (URS Australia Pty Ltd 2005).

In addition to the above challenges, there are a number of additional factors that work against the financial viability of independent "normal" towns in the Pilbara:

- The transition period from fully company owned to normal towns maybe too short for some towns;
- Aged infrastructure. In many areas, town infrastructure is close to 40 years old nearing the end of its service life, and major upgrades are needed;
- The Pilbara region is dominated by heavy reliance on the resources sector with mining accounting for 90 per cent of gross regional product (ACIL Tasman 2005). Furthermore, most of the wealth from mining leaves the region. Pilbara Iron estimates that only nine per cent of its purchases of goods and services were made within the Pilbara region, reflecting the underdeveloped service sector in the region;

- The lack of robust sustainable population growth. The likely outcome for the region is a stable or declining resident non-Indigenous population; partly offset by a growth in Indigenous population;
- Infrastructure and assets are spread over large geographic areas and there is limited ability to achieve economies through sharing physical resources;
- The boom-bust nature of the mining industry in recent years – evidenced by a surplus of houses in inland towns in the late 1990s, to an accommodation shortage in the same towns in 2006;
- In the current boom, State and local Governments in the region are not able to offer competitive working conditions for jobs compared to mining companies, which affects their ability to deliver services;
- Pilbara residents and the major employers have high expectation of quality and delivery of services; and
- Pilbara shires have limited revenue opportunities and are strongly reliant on State and Commonwealth Grants.

#### **4. Alternate model – Roxby Downs, South Australia**

Roxby Downs town was purpose built in the 1980s to service the large Olympic Dam copper uranium mine now owned by BHP Billiton (then WMC Resources Pty Ltd). It is believed to be the last mining town built in Australia, some 20 years after the construction of the Pilbara towns. The town is isolated, with the nearest settlement being Woomera which is about 75km to the south west. Being a modern, purpose built town, the facilities are up to date and in good condition. The town is not located in a normal local government area, but the town has a unique arrangement established under the *Roxby Downs (Indenture Ratification Act) Act 1982*. The *Roxby Downs Act*.

- Levies a royalty fee of 3.5 per cent on the value of the products dispatched from the mine;
- Confers continuing mining rights (via a Special Mining Lease) at Olympic Dam Operations for the deposit's expected mine life;
- Confers the right to draw water;
- Provides Government infrastructure and services; and
- Permits production of up to 350,000 tonnes of copper per year.

The Municipal Council of Roxby Downs operates with all the powers, functions and duties of a South Australian Local Government Authority, with a number of notable exceptions, which are specified below. The Council's information material describes its approach as 'community local government'.

- The requirement of elected councillors has been suspended with an appointed 'Administrator' performing all of the functions of Council. The Council's Administrator reports to the State Minister for Mineral Resources Development.
- Separate power ('Roxby Power') and water ('Roxby Water') authorities have been created with Council operating them as separate self-contained business units. These authorities operate as separate independent business units from the local government operations, according to best practice government standards. BHP Billiton provide water and electricity to Council for subsequent distribution.
- The State Government and BHP Billiton are required to approve the Council budget and fund an annual operating municipal deficit. Although set rates have been rising, the deficit remains at approximately \$1.5 million per year (\$1.4 million in 2004/05), funded equally by the two parties.
- External contractors carry out all of the construction and maintenance work.

Apart from these exceptions, the Roxby Downs Council operates like any other South Australian Local Government Authority, operating within all normal legislative requirements.

An inter-government task force has been established to facilitate a coordinated government response to the rapid expansion of Roxby Downs. Sufficient supply of water, power and housing stock are the major hurdles to overcome.

The Council has taken on a leadership role in fostering community development through the Community Board and the planning process. This focus on community development could be integral to the town's thrival. In the community development process, it is important for the dominant factor in the town's life (i.e. the company involved) to strike the right balance between involvement, facilitation and support.

**The Roxby Downs experience is different to the Pilbara towns in that:**

- It occurred in a local government 'greenfield', i.e. the area was outside the boundaries of gazetted local governments.
- Governance arrangements which are specifically established under specific legislation therefore the advantage of a 'purpose-built' statutory basis, with clear responsibilities allocated to BHP Billiton and the State Government, and a Roxby Downs Council that is able to discharge normal local government functions.
- The town benefits from a known resource life at Olympic Dam of at least 70 years at a single geographic location.

**The Roxby Downs experience is similar to the Pilbara towns in that:**

- It is currently managing growth in its core business (support for mining at Olympic Dam) while at the same time looking for economic opportunities beyond mining.
- The town has a dominant source of economic support from BHP Billiton operations.
- The town provides services to surrounding pastoral and Indigenous communities, and to tourists travelling through the region.

## **5. Summary and Conclusions**

Normalisation is complex in nature and there are no easy or 'one size fits all' solutions. Each situation is unique to the extent that it is unlikely the exact circumstance experienced in the Pilbara towns will be replicated anywhere across Australia (URS Australia Pty Ltd 2005).

**The following observations have been made from this study:**

- The requirements for sustainable normalisation include the ability of the town to develop a diverse and resilient economy and have a growing or steady population base.
- Local Government's ability to cope with the 'boom and bust' cycle in mining is an important factor in successful normalisation.
- Although increased (more, better) infrastructure provision is often seen as *the* need to ensure sustainable town development and community life, the literature suggests that once acceptable infrastructure is available, town 'thrival' depends more on a wide range of social and human factors and community capacity and diversity. Developing this capacity requires investments in the 'soft' infrastructure.
- The literature suggests that the theoretical conditions for successful normalisation may not have been fully achieved in the Pilbara – with towns undergoing normalisation that are still principally providing services to single (or two) mining companies.
- Managing the expectation of stakeholders is difficult.

**The process of normalisation may be assisted by implementing the following:**

- Governments need to work with companies to improve regional development in isolated areas to assist the process of normalisation by creating conditions for greater economic diversity, and purpose-built governance arrangements.
- Governments and companies must be committed to building up social capital by fostering community development.
- Companies need to maintain an appropriate balance between involvement, facilitation and support in the community development process.
- Long term planning is required for the successful transition of non-exclusive services from private ownership to public ownership.
- Establishment of strategic alliances with government and non-government organisations to tackle expansion and other issues.
- The requirements for successful town transitional management include early warning of impending shocks, and sound inclusive planning.

## **6. Acknowledgements**

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Bill Boehm, Administrator, Roxby Downs Council

Ray Goldie, Facilitator, Roxby Downs Community Plan, Roxby Downs

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